

Mrs. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mrs. Rupp

Thank you for the opportunity to express our thoughts regarding the situation that our Corporate Network finds itself in and actions that could be taken to mitigate risks in the future. The funding solution, falling to Natural Person Credit Unions, will change the face of our cooperative movement for years to come. The request for comment covers issues relative the operation of the Corporates and could become limiting and overly complex if we allow it to. By the same token the factors leading to the losses that threaten the survival of the network as well as some NPCU, must be examined in an effort to provide solutions that will keep them from re occurring.

Allow us to commend the Board's swift action in meeting the immediate problem at US Central. We believe that the PIMCO valuation is another good step in trying to get your hands around the magnitude of this problem. We do differ on the importance of providing this information to credit unions. We believe that it could be provided in a fashion that would allow credit unions to "come to grips" with network capital needs now and into the future without compromising Network, Agency or Corporate confidentiality. Perhaps by offering a range of potential liability that could be anticipated and planned for going forward. Any uncertainty on the part of NPCU, about the size of this issue could be diminished by some statement relative the PIMCO findings.

NCUA wonders whether a variety of solutions that would separate service offerings from investment and liquidity options should be undertaken. As an example: the suggestion that payment systems be developed as a limited business model restricted to payment systems services only. Also: the potential development of capital requirements for each service risk. It is our feeling that this would only cloud the issue and in the partitioning and/or spinning off those services cause additional costs to clients to support such a series of partitioned service providers. We would not be in favor of such action believing the solution to the problem lies in other areas and reforms should be concentrated in those areas.

NCUA asks whether or not liquidity is a core service. It is indeed **THE** core service. We are in this fix because liquidity is imperiled. NCUA's CUSIP program, undertaken to improve Network liquidity, serves to emphasize the importance of this core service. We must also recognize that Corporates have evolved into important service organizations that not only provide NPCU with low cost services but also impact the pricing for those services from competitors. It is difficult to imagine that a well run Corporate needs to be restricted in its service offerings in order to preserve and defend the liquidity function.

We have a mixed opinion about Field of Membership issues. On the one hand is our recognition of competition being good for the NPCU we are convinced that it could also dangerously influence decision making if more emphasis were placed on “meeting competition”. That is to say: Have corporates taken undue risk in an effort to compete? Limiting Fields of Membership would only eliminate one competitor and that is other corporates. Given that it would seem unwise to impose strict fields of membership.

NCUA asks about Expanded Investment Authority. In our estimation Expanded Investment Authority beyond Base Plus should be withdrawn. Part 704, when enacted in 2002, outlined the authority of Corporates who sought expanded authority and at the same time increased regulatory responsibility to ensure that the steps needed and outlined in the Expanded Authority were being taken. We believe that the authority as well as the regulatory oversight failed when some Corporates applied for and received expanded authority. We believe that this occurred as a consequence of the complexity imposed by sections of appendix B Part 704. Those Corporates who applied for and received expanded authority are the same Corporates who are providing the lions share of the difficulties. Initially US Central was established to provide wholesale investment, liquidity, custody and payment system services to its members. Historically, prior to Part 704 amendment, the investments were highly liquid, consisting primarily of Treasuries and other government agency issues. A return to those principles with modest modification is in order.

NCUA asks about the necessity of a two tier system. Because of its actions USCFCU may have doomed itself. What is troubling about USFCU is the lack of transparency and the failure of the Board and Management to accept responsibility for the failures. Essentially USFCU, without the monies from NCUSIF and other Corporates, would be insolvent by any benchmark. What is more troubling was the denial of Senior Management in that regard. Only long after the disclosures did an acknowledgement of the difficulties come from its chief executive.

The failure of USFCU to properly and responsibly carry out its role in the system is unforgiveable. Unfortunately it repeats the historical pattern of concentrated authority. If an opportunity for abuse exists then the eventual arrogance of concentrated power will show itself in the abuse of that authority. If restrictions on investment powers and reformed governance were put in place, to enable that transparency, it would be appropriate to leave the wholesale corporate in place. Barring that removing USCFCU from the system is the only course of action. Additionally USCFCU now finds itself with meager capital and no plan or technique that would improve that situation. The question really is one of need. If a definitive need can not be established they probably should go.

NCUA asks if it should establish a new capital ratio that consists only of core capital. We feel that the current methodology is appropriate and should be maintained. When our Corporates balance sheet is examined (CenCorp) little need for additional capital, based on risk, is apparent. While NCUA is responsible for the entire network we feel that well run network Corporates evidence little need for an increased core capital ratio.

No changes to MCSD are needed. Even the reduction of MCSD should be the purview of the Board and Management of the Corporate after consultation with NCUA.

Comments on Risk Based and Contributed Capital are withheld based on the complexity of the questions surrounding that possibility and its effect on NPCU.

The last issue we wish to comment on concerns the Corporate Governance issue as it relates to several issues noted in the ANPR.

It is important that Directors possess many qualities that help ensure the proper direction and operation of the Corporates. The most important is honesty and a recognition of the important role they play in the safe and sound operation of the corporate. The Board should be comprised of direct stakeholders in the Network. That is to say they should come from NPCU and, in the case of USCFCU, Corporates as well. Directors with possible conflicts due to their employment with Trade Associations and/or Vendor connections should not be allowed.

The idea of term limits has both good and bad aspects. Electing new people to term limited positions may seem to be a good thing but many times quite the opposite effect occurs as the “new director” finds themselves placed in an unfamiliar position with no history or experience to rely on. Without that experience it becomes difficult, in our estimation, to face a strong CEO that may hold a position that is not necessarily proper for the network. At that point decision making may lapse and become more collegial rather than pragmatic.

Executive compensation is another area that we believe needs more transparency. We believe there has been an “outbreak” of excessive compensation. This has happened at the Corporate level. It is long overdue that the compensation and the actions relative to the determination of that compensation become a matter of member information easily attainable. Again this is an area that is most often influenced by the collegiality of the Directors serving on a compensation committee. Currently FCU 990’s are not available for examination. State chartered NPCU are available and it is our belief that FCU should be included. We do not believe that Corporate Directors should be compensated beyond the normal expense incurred by their participation.

In Summary:

Many of the issues raised in the ANPR could be mitigated, in our estimation, by the simple rollback of part 704’s expanded authority. We believe that the expanded authority posed great difficulty for the regulated and the regulator due to the complexities that some corporates attained by gaining higher level authority. It put into place a need for constant oversight and may have led to overextended positions that subsequently led to significant losses. Motive for those extensions is unclear but regardless of the motive it is apparent that we can no longer allow the authorities to be so high or complex. Nor can we rely on auditors and regulators to assure compliance when the complexities are so significant.

Our CUSO represents some 12 credit unions and we are quite small even in the aggregate. We do recognize the important role our corporate (CenCorp) plays in our daily activities. We do not wish to see its powers diluted or taken away because of the need to somehow “do something about the Network problem.” Rather we feel it is time to “fine tune and limit” network risks but otherwise keep in place the things that make our Corporate important to us. We believe that this can be accomplished by curtailing the expanded investment authority and improving the governance guidelines within the network. We further believe that suggestions to consolidate the network into regional corporates would dilute CenCorps effectiveness to us. In short we believe the CenCorp model is appropriate and continues to serve its members in the most efficient and economical fashion possible. Any threat to its survival we consider to be a threat to our welfare.

Thanks to the Board for considering our thoughts.

Thomas Miller, Chairman of the Board CU Partners Solutions
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